

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 PA-04 PRS-01 USIA-15 DRC-01 /171 W

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R 241821Z MAY 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0693

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MAY 24

BEGIN SUMMARY: THE POUND REACHED \$2.4150 ON WEDNESDAY
(MAY 22), ITS HIGH FOR THE WEEK BEFORE FALLING BACK TO
CLOSE AT \$2.4125 ON THURSDAY (MAY 23), RELATIVELY
UNCHANGED FROM A WEEK AGO. THE TRADE WEIGHTED DEPRECIA-
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TION NARROWED TO 17.30 PERCENT ON MONDAY (MAY 20) BUT

WIDENED TO 17.61 PERCENT ON THURSDAY (MAY 23), THE SAME LEVEL AS A WEEK AGO. GOLD FELL OFF SHARPLY ON THURSDAY, CLOSING AT \$159.00. A GREAT MANY STATISTICS WERE PUBLISHED THIS WEEK, MANY OF WHICH REFLECT THE EFFECTS OF THE MINERS' STRIKE AND THE 3-DAY WEEK. GROSS DOMESTIC PRODUCT FELL BY 3-1/2 PERCENT IN THE FIRST QUARTER, A SMALLER FALL THAN WAS EXPECTED. INDUSTRIAL PRODUCTION BEGAN TO RECOVER IN MARCH, BUT RECORDED A FALL OF 6.5 PERCENT FOR THE FIRST QUARTER AS A WHOLE. CONSUMER SPENDING WAS DOWN 1 PERCENT IN THE FIRST QUARTER, PARTLY REFLECTING CUTS IN EARNINGS DUE TO THE 3-DAY WEEK. BASIC HOURLY WAGE RATES FOR APRIL WERE ONLY UP marginally, WHILE AVERAGE EARNINGS FOR MARCH REFLECT THE EFFECTS OF THE MINERS' SETTLEMENT. THE NUMBER OF WHOLLY UNEMPLOYED FELL IN THE PERIOD TO MID-MAY, BUT ON A SEASONALLY ADJUSTED BASIS, THE PERCENTAGE UNEMPLOYED REMAINED AT 2.4 PERCENT, WHERE IT HAS BEEN SINCE JANUARY. ON MAY 22, TWO OF THE MAJOR CLEARING BANKS, BARCLAYS AND NATIONAL WESTMINSTER, DROPPED THEIR BASE LENDING RATE BY 1/2 PERCENT TO 12 PERCENT FOLLOWING LLOYDS, WHICH HAD TAKEN THE MOVE 11 DAYS EARLIER. THE GROWTH IN THE MONEY SUPPLY, M3, CONTINUED TO SLOW IN THE PERIOD TO MID-APRIL. BRITAIN'S TERMS OF TRADE IN JANUARY WAS THE WORST IN 20 YEARS. END SUMMARY

1. GROSS DOMESTIC PRODUCT IN THE FIRST QUARTER, BASED ON OUTPUT DATA, SHOWED A MUCH SMALLER FALL THAN EXPECTED AS A RESULT OF THE 3-DAY WEEK AND THE MINERS' STRIKE. GDP IN FIRST QUARTER 1974 IS ESTIMATED AT 105.7 (1970100, S.A.) COMPARED TO 109.5 IN FOURTH QUARTER 1973, A FALL OF 3-1/2 PERCENT. THE FIRST QUARTER FIGURE IS LIKELY TO BE A SIGNIFICANT UNDERESTIMATE OF THE SET BACK BUT INDICATIONS ARE THAT BUDGET FORECASTS OF A 5 PERCENT DROP IN OUTPUT BETWEEN THE SECOND HALF OF 1973 AND THE FIRST HALF OF 1974 SHOULD BE REASONABLY ACCURATE.

2. IN MARCH, INDUSTRIAL PRODUCTION RECOVERED BY 3-1/2 PERCENT TO 104.7 COMPARED TO 101.1 IN FEBRUARY (1970100, S.A.). HOWEVER, FOR THE FIRST QUARTER AS A WHOLE, INDUSTRIAL PRODUCTION WAS DOWN 6.5 PERCENT COMPARED WITH FOURTH QUARTER 1973. THIS DROP REFLECTED THE IMPACT

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OF THE 3-DAY WEEK WHICH ENDED ON MARCH 10.

3. ESTIMATES OF CONSUMER SPENDING FOR THE FIRST QUARTER HAVE BEEN REVISED UPWARD BY 60 MILLION POUNDS TO 8,830 MILLION POUNDS, REPRESENTING A FALL OF ABOUT 1 PERCENT ON THE FINAL QUARTER OF 1973. THE DROP HERE REFLECTS THE CUT IN EARNINGS WHICH AROSE FROM THE 3-DAY WEEK. FALLS IN EXPENDITURE WERE PARTICULARLY MARKED FOR DURABLES, AND

FUEL AND LIGHT.

4. THE INDEX OF BASIC HOURLY WAGE RATES ROSE SLIGHTLY IN APRIL TO 126.6 (1972100, N.S.A.) FROM 126.4 IN MARCH, FOLLOWING THE LARGE JUMP IN THE PREVIOUS MONTH REFLECTING THE MINERS' PAY SETTLEMENT. FIGURES OF AVERAGE EARNINGS FOR MARCH SHOW THE EFFECTS OF THE RECOVERY AFTER THE STRIKE. THE INDEX SHOWS A RISE OF 4.7 PERCENT FROM THE DEPRESSED FEBRUARY LEVEL, TO A POINT 14 PERCENT HIGHER THAN A YEAR AGO.

5. THE NUMBER OF WHOLLY UNEMPLOYED IN GREAT BRITAIN DROPPED BY 43,919 TO 530,421 DUE TO CONTINUED RECOVERY FROM

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THE EFFECTS OF THE 3-DAY WEEK AND THE NORMAL SEASONAL DOWN
TREND. ON A SEASONALLY ADJUSTED BASIS, THE TOTAL OF UN-
EMPLOYED REPRESENTS 2.4 PERCENT OF THE WORK FORCE,
UNCHANGED FROM LAST MONTH.

6. ON MAY 22, BARCLAYS, FOLLOWED BY NATIONAL WESTMINSTER,
ANNOUNCED A CUT IN THE BASE LENDING RATE FROM 12-1/2 PER-
CENT TO 12 PERCENT, GIVING FURTHER CONFIRMATION TO THE
TREND TOWARDS LOWER INTEREST RATES IN THE UK. LLOYDS HAD
CUT THEIR BASE LENDING RATE TO 12 PERCENT EFFECTIVE MAY
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13, BUT THE OTHER MAJOR CLEARERS HAD HESITATED BECAUSE OF
THE UPWARD PRESSURE ON INTEREST RATES IN THE US. THIS CUT
IN THE BASE RATE WILL MEAN THE COST OF OVERDRAFTS TO
"BLUE-CHIP" CUSTOMERS WILL BE 13 PERCENT, WITH PERSONAL
BORROWERS PAYING UP TO 16 TO 16-1/2 PERCENT. THE INTEREST
RATE PAID ON DEPOSITS OF 10,000 POUNDS OR MORE WILL BE
REDUCED FROM 11 PERCENT TO 10-1/2 PERCENT WHILE THE RATE
ON SMALLER DEPOSITS WILL REMAIN AT 9-1/2 PERCENT.

7. THE GROWTH IN THE MONEY SUPPLY CONTINUED TO SLOW IN THE
PERIOD TO MID-APRIL, WITH M3 INCREASING BY 65 MILLION
POUNDS (S.A.) OR ONLY 0.2 PERCENT. OVER THE PAST THREE
MONTHS, M3 HAS RISEN BY ONLY 2 PERCENT (S.A.), AN ANNUAL
RATE OF INCREASE OF ABOUT 8 PERCENT COMPARED WITH LEVELS
OF 25 PERCENT AND ABOVE RECORDED UP TO THE END OF LAST
YEAR. HOWEVER, M1 JUMPED BY 330 MILLION POUNDS (S.A.) OR
2.7 PERCENT BETWEEN MID-MARCH AND MID-APRIL AN UNEXPECTED-
LY LARGE INCREASE AFTER HAVING REMAINED MORE OR LESS STABLE
FOR SOME MONTHS. OVER THE LAST THREE MONTHS, M1 HAS THUS
RISEN BY 1-3/4 PERCENT. THE SHARP RISE IN M1 IS SEEN AS
A TEMPORARY ERRATIC FLUCTUATION AND THE BANK OF ENGLAND
ARGUES THAT THE FIGURES ALMOST CERTAINLY EXAGGERATE THE
UNDERLYING GROWTH RATE. LARGE SALES OF GILT-EDGED STOCK
TO THE PUBLIC HELD DOWN THE CENTRAL GOVERNMENT'S NEED FOR
FINANCE, AND BANK LENDING TO THE PUBLIC SECTOR WAS LITTLE
CHANGED IN TOTAL IN SPITE OF LOANS OF OVER 200 MILLION

POUNDS IN FOREIGN CURRENCIES TO LOCAL AUTHORITIES AND PUBLIC CORPORATIONS.

8. BRITAIN'S TERMS OF TRADE WITH THE REST OF THE WORLD DETERIORATED FURTHER IN JANUARY TO THEIR WORST FOR MORE THAN 20 YEARS. HOWEVER, WITHOUT THE SHARP RISE IN THE PRICE OF OIL IMPORTS IN JANUARY, THE TERMS OF TRADE WOULD HAVE IMPROVED BY 2-1/2 PERCENT. THE INDEX, I.E. EXPORT UNIT INDEX AS A PERCENTAGE OF THE IMPORT UNIT INDEX, FELL TO 80.0 FROM 82.1 IN DECEMBER (1970100). THESE FIGURES FOR JANUARY AS WELL AS OTHER TRADE STATISTICS HAVE BEEN DELAYED FOR OVER TWO MONTHS BY DIFFICULTIES WITH A NEW PROCESSING SYSTEM AT HM CUSTOMS STATISTICAL OFFICE.

9. FORWARD DISCOUNTS ON STERLING NARROWED SHARPLY ON UNCLASSIFIED

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TUESDAY (MAY 21), WIDENED ON WEDNESDAY, BUT NARROWED AGAIN ON THURSDAY.

	5/16	5/23	CHANGE
1 MONTH	0.53-1/2	0.37	DOWN 0.16-1/2
3 MONTHS	2.45	1.78	DOWN 0.67
6 MONTHS	5.95	4.80	DOWN 1.15

(ALL FIGURES IN CENTS)

10. LOCAL AUTHORITY DEPOSIT RATES WERE STABLE AT ONE AND THREE MONTHS, BUT ROSE SLIGHTLY AT SIX MONTHS DURING THE WEEK.

	5/16	5/23	CHANGE
1 MONTH	12-1/2	12-7/8	UP 3/8
3 MONTHS	13-1/4	13-3/16	DOWN 1/16
6 MONTHS	13-15/16	13-1/2	DOWN 7/16

11. EURODOLLAR RATES MOVED STEADILY DOWNWARD OVER THE WEEK, UNTIL THURSDAY, WHEN THEY ROSE SLIGHTLY.

	5/16	5/23	CHANGE
1 MONTH	11-3/4	12-1/8	UP 3/8
3 MONTHS	11-3/4	11-7/8	UP 1/8
6 MONTHS	11-5/8	11-7/8	UP 1/4

12. THE MINIMUM LENDING RATE WAS FIXED AT 11-3/4 PERCENT ON FRIDAY, MAY 24, 1974, DOWN 1/4 PERCENT FROM LAST WEEK.

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